



The Accounting Officer  
Sekhukhune District Municipality  
Private Bag X8611  
Groblerdal  
0470

31 January 2012

Reference: 60061REG10/11

Dear Sir

**Report of the Auditor-General on the consolidated financial statements and other legal and regulatory requirements of Sekhukhune District Municipality for the year ended 30 June 2011.**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited consolidated financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the consolidated financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

- Measurability: The indicators are not well defined and/or verifiable, and targets are not specific, measurable, and time bound.

31. The following audit findings relate to the above criteria:

- Reported performance against predetermined targets is not consistent with the approved service delivery and budget implementation plan
- No logical link between the indicators and performance targets set.
- The key performance indicators measures are not properly defined and / clearly identify the outputs

#### **Reliability of information**

32. The reported performance information was deficient in respect of the following criteria:

- Validity: The reported performance did not occur and does not pertain to the entity.
- Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.

33. The following audit findings relate to the above criteria:

- Sufficient appropriate evidence in relation to the objective: infrastructure service could not be obtained. There were no satisfactory audit procedures that I could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported performance against predetermined objectives.

#### **Compliance with laws and regulations**

##### **Strategic planning and performance management**

34. The accounting officer of the municipality did not by 25 January 2011 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1) (a) (ii) of the MFMA.

35. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the National Treasury, and the provincial treasury as required by section 72(1) (b) of the MFMA.

##### **Annual financial statements, performance and annual report**

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements

identified by the auditors could not be adequately corrected, which resulted in the financial statements receiving a disclaimer audit opinion.

- 37. The accounting officer did not submit the annual financial statements of the municipality for auditing, within two months after the end of the financial year as required by section 126(1)(a) of the MFMA.

#### **Procurement and contract management**

- 38. Goods and service with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
- 39. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
- 40. Invitations for competitive bidding were not always advertised for a required minimum period of days as per the requirements of SCM regulation 22(1) and 22(2).
- 41. Awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore the provider failed to declare that he / she is in the service of the state as required by SCM regulation 13(c).

#### **Expenditure management**

- 42. The accounting officer did not take reasonable steps to prevent irregular and unauthorised expenditure as required by section 62(1)(d) of the MFMA.
- 43. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounted for creditors of the municipality, as required by section 65(2)(b) of the MFMA.
- 44. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

#### **Asset management**

- 45. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets including an asset register reconciliation with general ledger, as required by section 63(2)(c) of the MFMA.
- 46. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.

#### **Budgets**

- 47. The municipality incurred expenditure that was in excess of the limits of the amounts

provided for in the votes in the approved budget, in contravention of section 15 of the Municipal Finance Management Act (MFMA).

## **INTERNAL CONTROL**

48. In accordance with the PAA and in terms of General notice *1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

- The accounting officer did not exercise oversight responsibility over compliance with laws and regulations and reporting on predetermined objectives and the enforcement of supply chain management regulations.
- The accounting officer did not establish an IT governance framework that supports and enables service delivery.
- Management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

### **Financial and performance management**

- The accounting officer did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- The accounting officer did not implement adequate controls over daily and monthly processing and reconciling of transactions.
- The accounting officer did not prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.
- Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

### **Governance**

- Internal audit did not fulfil its responsibilities in all instances by auditing the procurement of goods and services and performance information as part of its internal audit processes.

## OTHER REPORTS

### Investigations

49. An investigation is being conducted to probe the manner in possible supply chain management irregularities. The investigation aims to establish whether the supply chain management process has been implemented in terms of the prescribed supply chain management process. The investigation was still ongoing at the reporting date.

*Auditor - General.*

31 January 2011

Polokwane



AUDITOR-GENERAL  
SOUTH AFRICA

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# **REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE BOARD ON SEKHUKHUNE ECONOMIC DEVELOPMENT AGENCY (PTY) LTD**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the Sekhukhune development agency (PTY) Ltd., which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and section 126(3) of MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion

## **Internal audit**

14. The municipal entity did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14.

## **INTERNAL CONTROL**

15. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

- **Leadership**

The accounting officer did not, in some instance, exercise oversight responsibility over compliance with laws and regulations as well as reporting on predetermined objectives.

- **Financial and performance management**

The financial statements have not been adequately reviewed for completeness and accuracy prior to submission for audit.

- **Governance**

Internal audit did not fulfil its responsibilities in all instances by auditing the performance information as part of its internal audit processes.

The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice.

*Auditor-General*  
Polokwane

31 January 2012



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all fruitless and wasteful expenditure was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of fruitless and wasteful expenditure.

#### **Irregular expenditure**

23. The municipality procured goods and services amounting to R218 819 128 in contravention of the supply chain management requirements. The municipality has not disclosed this amount as irregular expenditure in a note to the financial statement as required by section 125(2)(d)(i) of the MFMA. Furthermore, an adequate system was not in place for the identification and recognition of irregular expenditure relating to supply chain management. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all irregular expenditure was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure.

#### **Restatement of comparative figures**

24. Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting policies, changes in accounting estimates and errors* requires that an entity shall disclose the nature of the prior period error for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected; the amount of the correction at the beginning of the earliest prior period presented; and if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected. The errors restated in the statement of financial position as at 30 June 2011, statement of financial performance, statement of changes in net assets and the cash flow statements was not disclosed separately as required by GRAP 3.

#### **Value Added Tax**

25. Included in Value added tax (VAT) receivable of R93 737 880 as disclosed in note 10 to the consolidated financial statements includes an unexplained difference of R12 724 321. The difference is between the VAT receivable as per the consolidated financial statements and VAT 201 returns which was submitted to South African revenue services (SARS). . The municipality could not provide sufficient appropriate audit evidence to substantiate the difference. Consequently I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and existence of VAT receivable of R93 186 398.

#### **Disclaimer opinion**

26. In my opinion, except for the effects of the matters described in the basis for disclaimer opinion paragraphs, the consolidated financial statements present fairly, in all material respects, the financial position of the Sekhukhune District municipality for the year ended

30 June 2011 financial performance and its cash flows for the year then ended are prepared, in all material respects, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the MFMA.

#### **Additional matter**

An additional matter paragraph will be included in our auditor's report to highlight the following matter to the users of the consolidated consolidated financial statements:

#### **Unaudited supplementary schedules**

27. The supplementary information set out on pages X to X does not form part of the consolidated financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

28. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

#### **Predetermined objectives**

#### **Presentation of information**

29. The reported performance against predetermined objectives was deficient in respect of the following criteria:

- Performance against predetermined objectives was not reported using the National Treasury guidelines.

30. The following audit findings relate to the above criteria:

- The integrated development plan did not include the key performance indicators and performance targets determined in accordance to its performance management system, as required by sections 26(i) and 41(1) (b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.
- Explanations for variances between the planned and the actual reported targets for objectives were not provided, as required in terms of the relevant reporting guidance.

### **Usefulness of information**

31. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved service delivery and budget implementation plan.
- Relevance: There is no clear and logical link between the objectives, outcomes, outputs, indicators and performance targets.
- Measurability: The indicators are not well defined and/or verifiable, and targets are not specific, measurable, and time bound.

32. The following audit findings relate to the above criteria:

- Reported performance against predetermined targets is not consistent with the approved service delivery and budget implementation plan
- No logical link between the indicators and performance targets set.
- The key performance indicators measures are not properly defined and / clearly identify the outputs

### **Reliability of information**

33. The reported performance information was deficient in respect of the following criteria:

- Validity: The reported performance did not occur and does not pertain to the entity.
- Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.

34. The following audit findings relate to the above criteria:

- Sufficient appropriate evidence in relation to the objective: infrastructure service could not be obtained. There were no satisfactory audit procedures that I could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported performance against predetermined objectives.

### **Compliance with laws and regulations**

### **Strategic planning and performance management**

35. The accounting officer of the municipality did not by 25 January 2011 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and

the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1) (a) (ii) of the MFMA.

36. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the National Treasury, and the provincial treasury as required by section 72(1) (b) of the MFMA.

#### **Annual consolidated financial statements, performance and annual report**

37. The consolidated financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors could not be adequately corrected, which resulted in the consolidated financial statements receiving a disclaimer audit opinion.
38. The accounting officer did not submit the consolidated annual financial statements of the municipality for auditing, within three months after the end of the financial year as required by section 126(1)(b) of the MFMA.

#### **Procurement and contract management**

39. Goods and service with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
40. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
41. Invitations for competitive bidding were not always advertised for a required minimum period of days as per the requirements of SCM regulation 22(1) and 22(2).
42. Awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore the provider failed to declare that he / she is in the service of the state as required by SCM regulation 13(c).

#### **Expenditure management**

43. The accounting officer did not take reasonable steps to prevent irregular and unauthorised expenditure as required by section 62(1)(d) of the MFMA.
44. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounted for creditors of the municipality, as required by section 65(2)(b) of the MFMA.
45. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

### **Asset management**

46. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets including an asset register reconciliation with general ledger, as required by section 63(2)(c) of the MFMA.
47. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.

### **Budgets**

48. The municipality incurred expenditure that was in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the Municipal Finance Management Act (MFMA).

### **INTERNAL CONTROL**

49. In accordance with the PAA and in terms of General notice *1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

- The accounting officer did not exercise oversight responsibility over compliance with laws and regulations and reporting on predetermined objectives and the enforcement of supply chain management regulations.
- The accounting officer did not establish an IT governance framework that supports and enables service delivery.
- Management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

### **Financial and performance management**

- The accounting officer did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

- The accounting officer did not implement adequate controls over daily and monthly processing and reconciling of transactions.
- The accounting officer did not prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.
- Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

#### **Governance**

- Internal audit did not fulfil its responsibilities in all instances by auditing the procurement of goods and services and performance information as part of its internal audit processes.

### **OTHER REPORTS**

#### **Investigations**

50. An investigation is being conducted to probe the manner in possible supply chain management irregularities. The investigation aims to establish whether the supply chain management process has been implemented in terms of the prescribed supply chain management process. The investigation was still ongoing at the reporting date.

*Auditor - General*

31 January 2011

Polokwane



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